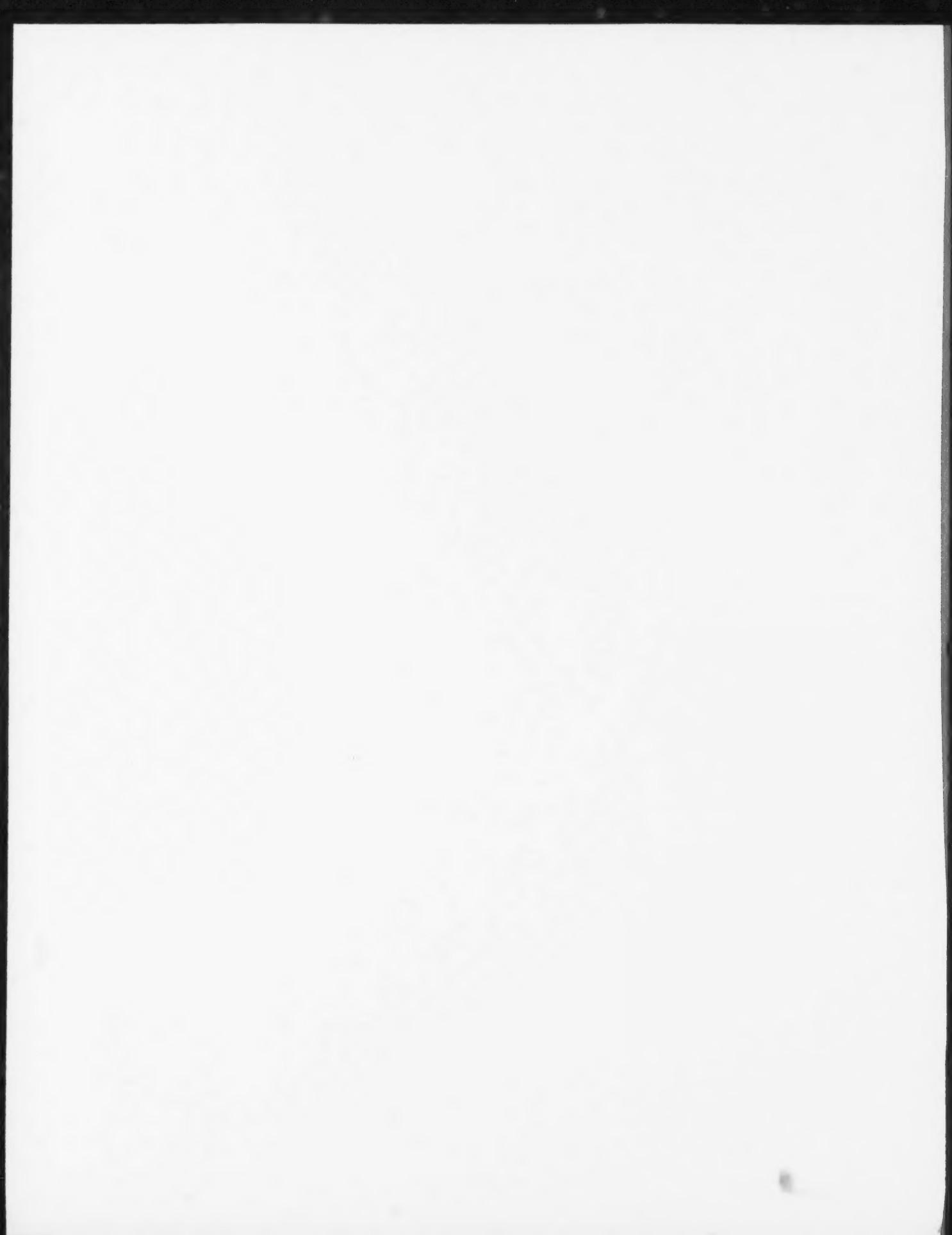




# PEI LENDING AGENCY

**Annual Report  
2006-2007**



## *Message of the Minister*

The Honourable Barbara A. Hagerman  
Lieutenant Governor of Prince Edward Island  
PO Box 2000  
Charlottetown, PE C1A 7N8

May it Please Your Honour:

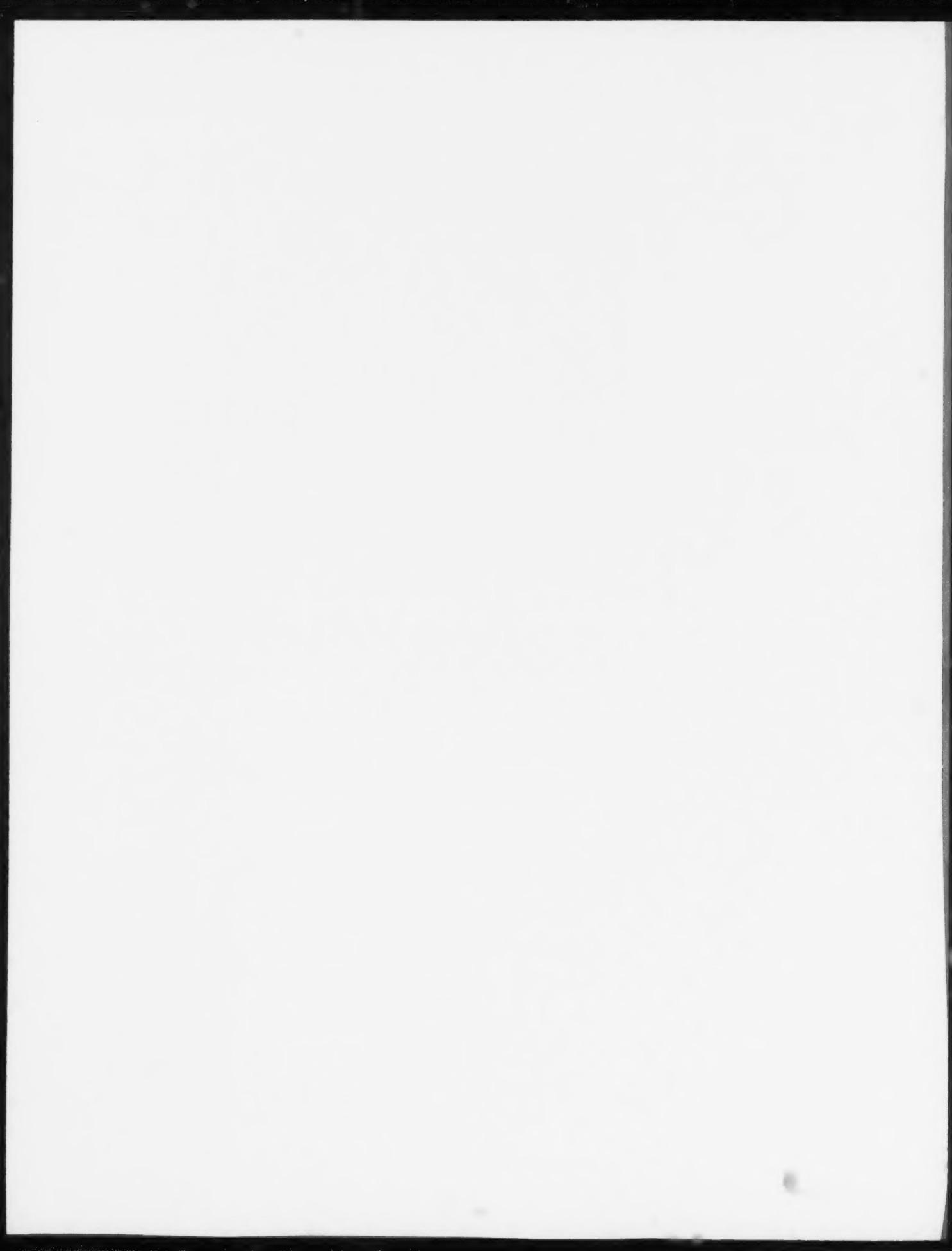
Pursuant to the *PEI Lending Agency Act* and as Minister designate,  
it is my privilege to submit the Annual Report of the PEI Lending  
Agency for the period ending March 31, 2007.

Respectfully submitted,

*Mitch Murphy*

Mitch Murphy  
Provincial Treasurer





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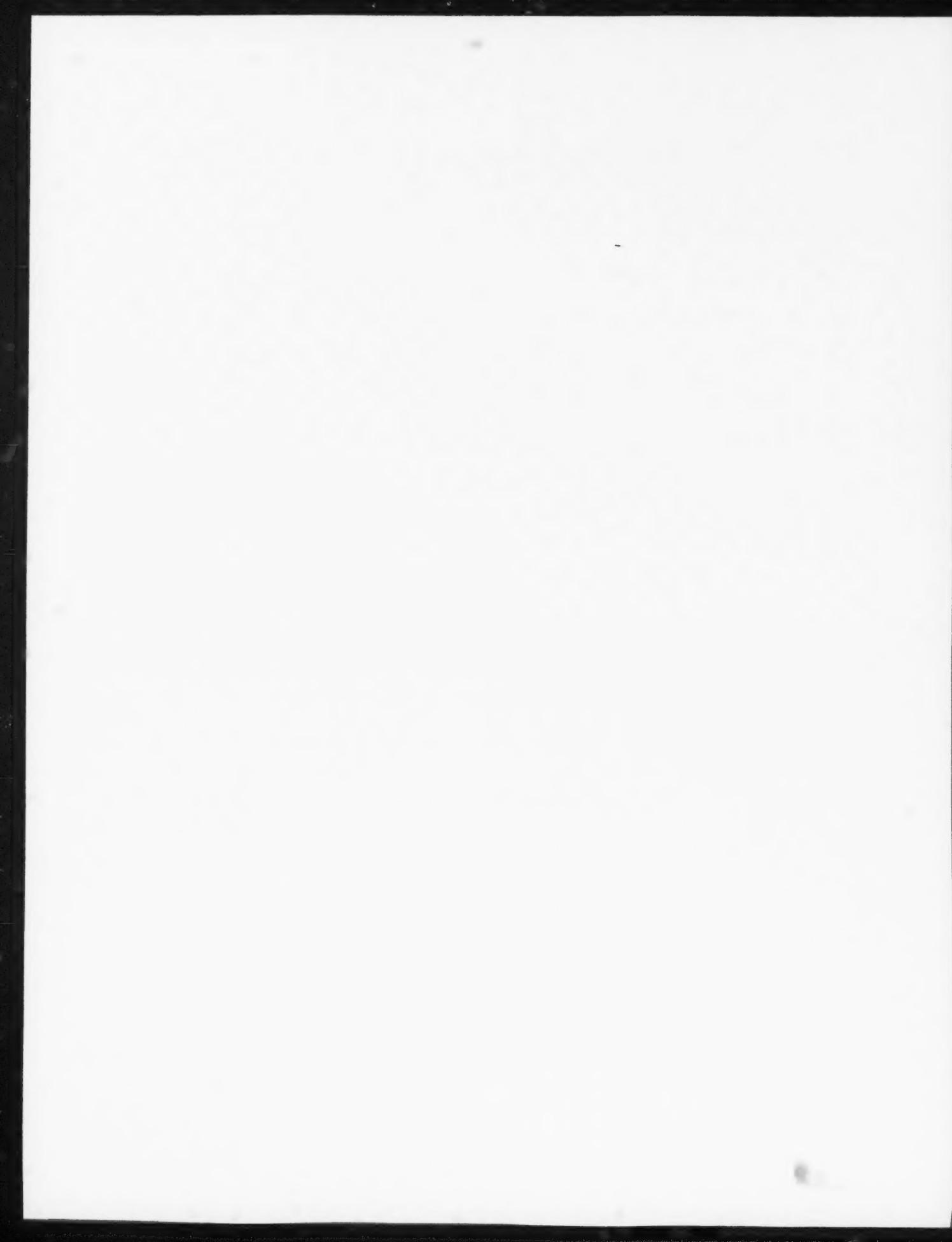
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## *Message of the Board Chair*

March 31, 2007

The Honourable Mitch Murphy  
Provincial Treasurer  
Province of Prince Edward Island

Dear Minister:

On behalf of the Board of Directors of the PEI Lending Agency, I take pleasure in presenting you with this, the Annual Report of the agency for the fiscal year ending March 31, 2007.



This report is being presented pursuant to the *PEI Lending Agency Act* and Regulations.

Sincerely,

*Brian MacPhee*

Brian MacPhee  
Chairman, Board of Directors  
PEI Lending Agency



## *Message from the Chief Executive Officer*

Mr. Brian MacPhee, Chairman  
Board of Directors  
PEI Lending Agency

Dear Mr. MacPhee:

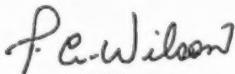
It gives me great pleasure to submit the Annual Report of the PEI Lending Agency for the fiscal year ending March 31, 2007.

The PEI Lending Agency continues to be an integral component of the financial framework supporting PEI's economy. Though the agency has maintained a long-standing reputation, among some, as being a lender of last resort, agency staff have always been open to new or existing business needs and can offer a valuable alternative to what may be available through traditional commercial lenders. Unlike many other lenders, the agency does not charge interest rates according to risk level. Financing is provided at competitive borrowing rates and under flexible repayment terms that may better coincide with a business's cash flow cycle.

As in the year previous, and on advice of the agency's external auditors, the agency as a precautionary measure, increased its provision for loan losses a further \$3.4 million. The auditors' recommendation identified three specific loans (one in each of the fisheries, agriculture and manufacturing sectors) for which the potential for loss exceeded the acceptable threshold for risk. Despite this increase, the year-end results from both an operational and performance perspective were positive. The agency recorded a profit of slightly more than \$1 million and saw the portfolio grow by 9.6 per cent, or approximately \$14.3 million.

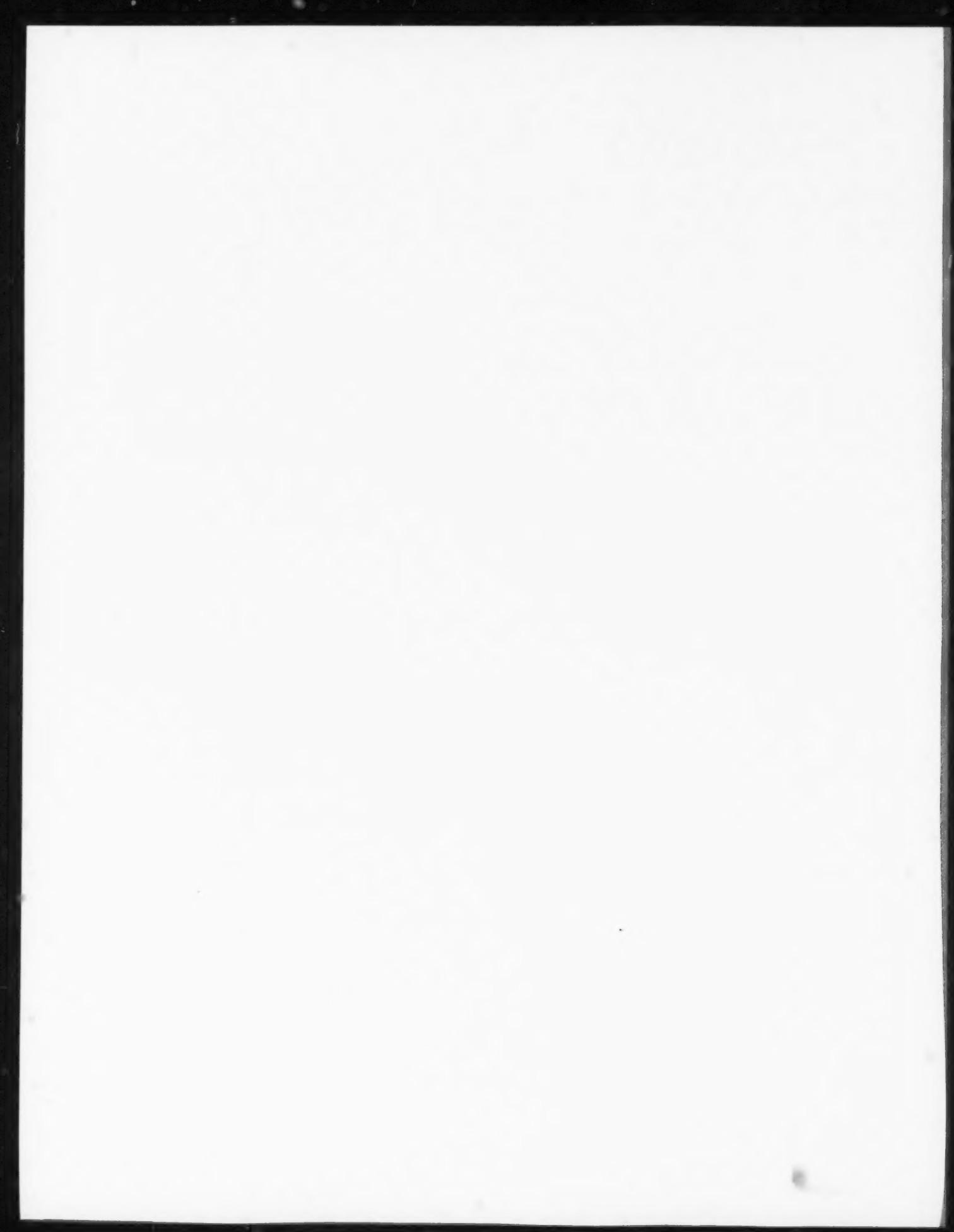
As Island businesses are continually faced with the challenges of competing in a global economy, the agency will remain committed to finding ways to meet these additional demands. Providing top quality client service is paramount to our highly dedicated and experienced staff, just as is preserving the integrity of the loan portfolio. As loans are provided using taxpayer dollars, it remains of utmost importance that requests be assessed using sound lending practices.

Respectfully submitted,



P.A. Wilson  
Chief Executive Officer





## *Mandate of the PEI Lending Agency*

The mandate of the PEI Lending Agency is to provide financial assistance, through loan agreements, in support of the government's economic development strategy; to support enterprises that demonstrate reasonable viability, though are unable to access private sector financing on terms and conditions required to meet their needs; and to provide loans and credit assistance to businesses maintaining or expanding economic development activity on Prince Edward Island.

The agency is to operate as a responsible, professional lender, basing decisions or recommendations on sound lending practices. Under the authority of the *PEI Lending Agency Act* and Regulations, the Board of Directors, consisting of six private sector and two government designated directors, provide agency staff with consistent guidance and direction. They strive to meet the needs of Island industries and individual businesses throughout the constantly shifting priorities and challenges which may evolve as a result of local provincial issues or from various constraints imposed by national and international markets.

Though the general mandate of the agency will remain unchanged, the focus may be altered in favour of specific industries, at government's direction, or through identifiable gaps which may emerge in commercial bank financing. With their singular objective of profitability and with policy decisions which are generally nationally directed, there will always be areas or gaps left by the banks that the agency will be needed to fill.

As the province's lending arm, the agency will undoubtedly continue to collaborate with other government departments and corporations to structure financial programs to promote new development or to assist industry specific difficulties. It continues to support the needs of our primary industries for capital purchases, expansion and operational expenses as well as encourages financing of non-traditional, potentially prosperous new enterprises.

The agency is unquestionably a higher risk lender and often lender of last resort. Where any business can continue to demonstrate a potential for viability, the agency is generally supportive to providing assistance as it will maintain current employment while offering the operator the opportunity for recovery. This is a role the agency has historically provided and numerous businesses have been ultimately successful due to this support in difficult times. Also, differing from the commercial banks' profit requirement, the agency's mandate is to strive for a break-even operation. If this can be achieved, there are numerous benefits to the province, in various capacities, but no cost to the taxpayer for the service. By sustaining businesses and maintaining employment, it reduces the drain on already stressed provincial and federal support programs. In addition, revenue from business, personal and sales taxes is maintained. These are all valuable considerations and are weighed, along with various other factors, when decisions are made by agency staff.



# *Corporate Profile*

The PEI Lending Agency was established to provide both term and working capital loans to eligible borrowers in the following sectors:

## **Small Business**

**Definition** – Small business includes any person that:

- (i) carries on business, or intends to carry on business, in the province;
- (ii) purchases a finished product from a supplier and resells that product without alteration; and
- (iii) does not employ more than 100 employees; or
- (iv) did not have annual gross sales exceeding \$10 million in the fiscal year immediately preceding an application made pursuant to Section 9 of the act.

This program is designed to meet the special needs of the Island's small business community and entrepreneurs for business acquisitions, expansions and debt consolidation.

## **Agriculture**

**Definition** – Agriculture includes any person that:

- (i) carries on business, or intends to carry on business, in the province;
- (ii) owns or will acquire farm assets with the loan proceeds pursuant to the act or the regulations; and
- (iii) is actively engaged in farming or intends to work actively at producing farm products.

It is the objective of the agency to encourage increased production of both established and new variety agricultural products, as well as improved marketing facets and techniques for PEI agricultural products. This may include better storage, handling, grading and packaging facilities.

## **Tourism**

**Definition** – Tourism includes any person that:

- (i) carries on business, or intends to carry on business, in the province; and
- (ii) operates a business, other than a Bed & Breakfast establishment as defined in the *Tourism Industry Act Regulations (EC267/99)*, that holds a valid tourism establishment licence issued pursuant to the *Tourism Industry Act Regulations*.

Projects to expand the shoulder tourist season and development of integrated recreational complexes which would feature entertainment facilities, lodging and dining facilities are encouraged. In some cases, loans may be granted for accommodation units which are converted to other uses during off-season periods.

This program is designed to meet the special needs of Island tourism operators for business acquisitions, expansions and debt consolidation, refurbishment of fixed assets and in some cases working capital for seasonal start-up.

Bed & Breakfast operations, as defined by the *Tourism Industry Act Regulations*, are ineligible to borrow from the agency.

## **Manufacturing and Processing**

**Definition** – Manufacturing and processing includes any person that:

- (i) carries on business, or intends to carry on business, in the province; and
- (iii) operates a business which produces a product by mechanical method from a raw material that is altered to add value.

Loans are available to finance land and buildings, specialized equipment, and in some cases, production inventory.

## **Fisheries/Aquaculture**

**Definition** – Fisheries and Aquaculture includes any person that:

- (i) carries on business, or intends to carry on business, in the province; and
- (ii) is licensed or qualified to obtain a licence or aquaculture permit issued by the Federal Department of Fisheries and Oceans, for any of the commercial fisheries or aquaculture industries in the province.

The objective of the agency is to provide term financing, recapitalization and operating lines of credit to assist applicants in the commercial fishery and/or aquaculture industry. The agency takes a particular interest in supporting projects that have a potential commercial viability for under-exploited species of finfish, shellfish and sea plants.

## **Information Technology**

**Definition** – Information technology includes any person that:

- (i) carries on business, or intends to carry on business, in the province; and
- (ii) operates a business that derives at least 60 per cent of revenue from software publishing, computer systems design and related services, the provision of online information services, or the manufacture of computer and peripheral equipment or related electronic components.

The objective of the agency is to provide term financing and operating lines of credit to assist borrowers purchasing fixed assets and for production and marketing expenses.

## **Aerospace**

**Definition** – Aerospace includes any person that:

- (i) carries on business or intends to carry on business in the province;
- (ii) owns or will acquire assets of an aviation or aerospace-related business with loan proceeds received pursuant to the act or the regulations; and
- (iii) is actively engaged in or intends to work actively in an aviation or aerospace-related business.

## *Year in Review*

Overall, the agency experienced a 21 per cent increase in the number of applications over the previous year. The percentage of loans approved remained consistent with past years at 85 per cent. This compares to 83 per cent and 85 per cent for 2005 and 2006 respectively. The total value of loans approved was \$29,607,565, which is down from the previous year's \$45,526,200 and represents a 34 per cent decrease.

The manufacturing and processing sector experienced the largest increase in value of approved loans on a comparative basis to the year prior, by increasing from \$2.9 million to \$7.1 million. This is an increase of 276 per cent.

With respect to the fisheries sector, the number of applications increased remarkably again this year with 101 applications received. This is a 71 per cent increase over the previous year and 494 per cent over the year prior. Most of these loan requests can be attributed to the serious plight of the Island's south-side fishery. Most were requirements for debt restructuring, needed to ease the financial burden brought on by successive years of low catches.

Applications received from the small business sector increased from eight in 2005/2006 to 18 for the year under review. There is nothing specifically, that can be attributed to this increase, however, it is noteworthy that this sector recorded the second highest average loan request of \$359,700. This is just behind the manufacturing and processing sector which averaged \$888,735.

Both the aerospace and information technology sectors experienced little or no growth during the period ending March 31, 2007. While the aerospace sector continues to be a sound investment, presenting average risk, the nature of investment into the IT sector could be considered quite the opposite from a risk perspective. As IT businesses typically have few tangible assets to

offer as security in support of their financing needs, they pose a higher than average risk to their creditors.

Operationally, the agency recorded a profit of \$1,087,612 for the year under review. In addition to the \$3.4 million increase in the grant from the Province, which was used toward increasing the agency's provision for loan losses and is commented on further in this report, there were three other revenue variances from those forecasted during the budget process:

- (1) Interest from borrowers, which increased 8.9 per cent (\$859,906) and can be attributed, for the most part, to the portfolio increase from loans provided to the snow crab fisherman (\$13.3 million), the hog and beef plants (\$3 million) and the tourism sector (\$1.78 million)
- (2) Service fees, which includes any application fees paid by the borrower, are used to offset the administration costs in assessing these applications. These increased \$80,596 or 135 per cent over the \$60,000 forecasted.
- (3) Other interest received, though not forecasted, was through loans provided to borrowers under the Alternative Energy Loan Program, at \$38,203, and income received through post receivership, at \$13,804.

With respect to the agency's expenses, the approved budget for operating overhead expenses (rent, utilities, equipment, salaries, etc.) excluding interest expense and loan loss provisions, was \$948,896. The actual expenses incurred were \$914,382. The only two variances of any significance, recorded on the attached financial statement, are in interest expense and loan loss provision.

The interest expense incurred by the agency and paid to the Province, is offset by the interest revenue generated through its loans to our clients. Historically, an increase in revenue will result in an increase in what is paid by the agency to government. This, however, was not the case in 2007, as favourable short-term rates over the last 12 months have resulted in a somewhat larger spread being achieved on the loans advanced to the agency's borrowers.

The provision for loan losses is established annually by the agency and is an estimate of possible losses based on the existing portfolio. This is an important part of the budget process. The loan loss provision established for fiscal 2006/07, was originally budgeted at \$2,903,994. However, by year-end conditions in the snow crab fishery and the future viability of a large agriculture borrower and a manufacturing account required we revise the projected loss and adjust upward this provision by \$3.4 million.

## **Small Business**

The small business category captures those companies and enterprises that fall outside the definition of the Island's other sectors, as defined in this report. Businesses might include the restaurant trade, construction and earth moving, retail, and industrial service contractors. The agency's involvement however is limited to mortgage financing which includes new construction or renovations to, client owned premises and equipment used to generate income for the business. Financing is not extended for working capital, leasehold improvements or goodwill.

At year-end, the small business portfolio consisted of 59 clients with loans totalling \$13,583,973. This represents 8.3 per cent of the agency's entire portfolio. This portfolio grew by 18.3 per cent year-over-year with no clients in arrears at year-end, whereas last fiscal year, three clients were in arrears with loans totalling \$438,030.

Over the last fiscal year, only eight applications were received, of which seven received approval,

totalling \$2,518,000. While the number of applications was down this year from the previous year's 18 applications, the value of approved loans was almost the same. Accordingly, the average sized loan approved was \$359,714 for small business clients. This was high compared to the average approved loan for other industries.

## **Agriculture**

At the year ended March 31, 2007, 46.8 per cent (260) of the Prince Edward Island Lending Agency's clients were involved in farming on PEI. Agriculture accounted for \$40.5 million, or 24.8 per cent of the total loan portfolio, which is an increase of \$703,758 (or 1.8 per cent) over the previous year. The increase can be attributed to requests for working capital loans. Working capital requests increased from \$16.9 at year-end 2006 to \$18.3 million at year-end 2007. This is an increase of \$1.4 million. Capital loans, on the other hand, decreased from \$22.1 to \$21.7 million (by \$0.4 million) over the same period. At \$0.8 million in total, investments and leases represent only two per cent of the total loans in the sector and did not change materially during the year.



Altogether, 28 applications, totalling \$5.6 million, were received during the year from this sector; 11 were for working capital loans which totalled \$1.2 million, and 17 were for capital loans, totalling \$4.4 million. All 11 applications for working capital were approved and 14 of the 17 capital loan requests were approved, for a total of \$3.2 million. This amounts to 25 new loan approvals during the year totalling \$4.4 million.

The number and dollar amount of applications received, however, was a decline from the previous year. These numbers reduced by 12, or 30 per cent, and decreased by \$3.9 million over the previous year. The agriculture sector contributed 17 per cent of all applications received by the agency, from a numbers perspective, and 13 per cent from a dollars perspective during the year in review.

While applications for new funds were down, the agency continued to work closely with existing farm clients experiencing financial difficulties. We have provided assistance by restructuring loan facilities for some clients whose farms were deemed to be viable over the long term. We expect to see a continuation of requests from existing clients for restructuring assistance, and will assess these requests ongoing.

The number of accounts in arrears at year-end, in the current account category, decreased to 42 from 49 last year, although the total dollar amount increased by just under \$400,000 to \$4 million. This represents approximately 47 per cent of the arrears on the entire portfolio for both the number of accounts and dollar volume, which is down, however, from 67 per cent of the number of accounts and 80 per cent of the dollar volumes from the year prior.

In the non-current loan category, which are loans that have been in arrears for more than 90 days or for which we have identified the potential for a loss, increased from 18 to 21 during fiscal ending 2007. However, the dollar amount decreased from \$2.7 million to \$1.4 million. This would be the result of adding several smaller accounts to this category over the year, while also resolving some large ones during this same period.

The land in inventory category are those former non-current loans for which we have acted on our security and acquired title to the property held in a mortgage securing the loan. Once the land is classified as in inventory, it is tendered for sale in an attempt to recover our loan investment. This category increased from two to

four accounts, totalling \$1 million by the end of fiscal 2007.

The 2006 crop season for potatoes got off to an early start with favourable planting conditions early in the season. Above average rainfall in late spring followed by several weeks of very warm weather contributed to very rapid growth and hollow heart issues for many growers. Yields and size were both good, however the hollow heart problem led to higher than average cull rates by processors and packers. Prices slipped slightly from the prior year but the heavy cull rate, along with acreage reduction initiatives, helped support prices by reducing supply.

The road ahead for PEI's potato industry will continue to prove challenging as, for many growers, debt loads have increased and debt servicing requirements are high. It will likely take several successful years to recover from past losses and place operations in a profitable position again.

There has been little change in the hog industry over the course of the last fiscal year as prices remain depressed and below the level at which most producers can generate profit. Production costs have continued to increase, negatively impacting profit margins or increasing losses. The agency's exposure to hog operators individually, through long-term financing, is minimal. However, the agency administers a number of loans to hog producers under previously approved programs initiated by the Department of Agriculture. In 2005 producers were offered the option to consolidate their loans; most of whom did so. The offer was made as the previous programs had been cancelled and consolidation simplified internal accounting and administrative requirements.

The discovery of BSE ("mad cow disease") in May of 2003 resulted in an immediate drop in beef prices and the closure of the U.S. border to Canadian beef exports. Since then, the border has re-opened and prices have slowly rebounded with feeder prices in December 2006 at December 2003 levels. However, as with the hog

industry, increasing production costs outweigh price increases which negatively impacts profit margins, or increases losses. The monitoring and control of all production costs remains critical and, unless prices improve or producers find ways to reduce costs, the industry will continue to struggle.

As a large portion of Atlantic Canada's beef producers are located in PEI, the opening of the processing plant in Borden-Carleton in 2004 appeared to be a good move strategically for Island producers. However, as the opening came on the heels of the BSE crisis and resulting downturn in the industry, the plant has never been able to operate at full capacity. This has resulted in continued operating losses for the plant, since opening, and how long it can operate in this manner is an issue that will need scrutiny. The agency will continue to work with existing beef industry clients and provide support wherever the potential for long-term viability can be determined.

Strong demand for blueberries has resulted in considerable growth of this industry over the last 10 years. Growers enjoyed an 8.4 million pound harvest in 2006 and saw prices reach approximately \$1/lb., up from approximately \$0.90/lb. the previous year on a harvest of eight million pounds.

The Blueberry Loan Development Program was introduced by the Department of Agriculture in the mid 1990s to provide financing to growers, either looking to enter the industry, or expand existing operations. The program included flexible repayment terms and, most recently, a component of interest relief offered by the Department of Agriculture to help alleviate compounding interest costs. By year-end, the agency had received approximately 95 per cent of the interest relief funds, resulting in some reduction to the debt outstanding on this program. Some growers have yet to successfully develop their land to the point where the harvest generates sufficient cash flow to service the associated debt load. In the majority of cases, this has been either the result of under-

capitalization and hence inability to complete the required development, or the land has not live up to its potential. The agency will continue to consult with industry specialists within the Department of Agriculture to find ways to help these growers, if they can be deemed viable.

PEI's cranberry industry generated a small harvest of 400,000 pounds of berries with a price of approximately \$0.43/lb. paid to growers in 2006. The total harvest was down from 500,000 pounds in 2005. Producers are limited to fresh market pricing as there is currently no capacity for freezing and storing their crop. They, therefore, have little option but to sell when inventories are high and prices are low. A growers association was established with the objective of trying to establish a better market presence and increased price for their product, but it has not had the hoped for impact. The association is also pursuing support from government for ideas and/or financial assistance in an effort to help growers reduce their debt loads and achieve increased production.

## Tourism

Over the past fiscal year, the agency received 12 applications for loans totalling \$3,188,665, providing its approval for 10, representing \$2,938,665. By year-end, the tourism portfolio, which has experienced a modest growth over the last three years, consisted of 48 clients with loans in excess of \$28.5 million. This portfolio represents 17 per cent of the agency's total loan portfolio.

The health of this portfolio remains relatively strong with few problem accounts. Despite an increase of \$1 million, year-over-year, bringing the total to \$1,543,028 by year-end, arrears remained low. While the agency does provide working capital for annual start-up expenses, loans to borrowers in this sector are secured by real property assets and as such, represent straight mortgage financing presenting a more measurable risk.



As experienced by the other Maritime provinces, the rising fuel prices, strengthening Canadian dollar, and the requirement of a passport for cross-border visitors has significantly decreased American visitation numbers. These issues present their own unique challenges for operators to be able to attract U.S. visitors to PEI.

On a more positive note, the industry did witness a very prosperous convention season, which in 2006 was one of the Island's best years.

## ***Manufacturing and Processing***

Investment made in this sector spans a wide diversity of industries. Examples would include food processing, bioscience/pharmaceutical manufacturers, equipment and vessel manufacturers, metal and machine fabricators, furniture and fixture producers to name just a few. In fiscal year 2006/07, the agency received 11 applications for financing, for which eight were approved. The same number of applications were received the previous year.

Due to the size and complexity of the various firms operating within this sector, the average loan size is skewed by some larger loan applications. However, over the past year, the aggregate value of approved loans totalled \$7,107,000, which would represent a 135 per cent increase year-over-year. The agency's total investment into this sector at year-end was \$23,841,040, which is comprised of 40 loans. This represents a decline of \$5.9 million, or 19 per cent in this portfolio over the previous year. At years end, the manufacturing and

processing portfolio represented 14.6 per cent of the agency's entire loan portfolio.

With respect to the arrears figures for this sector, the dollars in arrears for current accounts, at year-end, was at \$3,029,177, or 12.7 per cent of the portfolio, and is representative of three accounts. The non-current and accounts in inventory added a further \$1,508,632 and five accounts to the category of troubled borrowers. The same time the previous year, we saw four clients totalling \$332,437 in arrears in the current account category, however the year-over-year increase can be attributed to one client falling into arrears. With respect to the non-current and inventory clients, there was a drop this year over last in the dollar value by approximately 30 per cent. The previous year saw \$2,171,950 or 12 accounts held in non-current or in inventory.

With the continued improvement in the Canadian dollar, manufacturers exporting to foreign markets have had to become more efficient in the management of their operations. New ways to reduce operating expenses resulting from shrinking margins or improved business risk through product diversification are two examples of how our producers must stay competitive.

## ***Fisheries***

Year-over-year, the fisheries sector represented 63 per cent of all applications received by the agency. Of the 101 applications received, 52 were for debt restructuring, 35 related to capital purchases such as vessels or engines, and the remaining 14 were for working capital purposes. The approval rate for this sector was 87 per cent, or 88 loans. This was consistent with the previous year's approval statistics. At year-end, the agency had a total loan exposure of \$33,580,27, represented by 154 clients. This loan figure represents 20 per cent of the agency's entire loan portfolio; a 56 per cent increase in the value of this portfolio over the previous year. The number of borrowing clients increased by 73 per cent.



The north side fishery continues to enjoy stable landings, while the south side and fall fisheries have continued to experience a decrease. This has resulted in some fishers being forced to finance their personal living expenses through their fish buyers and short-term credit sourced at high rates of interest. Despite the efforts by the agency to provide debt consolidation loans which will provide a more manageable debt load for fishers experiencing lower income levels, there are some cases where problem loans have arisen. At year-end, arrears to fishers in this category represented \$4,521,159 of the \$12,367,854 in total arrears. The balance, \$7,846,695, or 63 per cent of the total fish portfolio arrears, were for loans to fishers involved in the snow crab fishery. For these fishers, the industry has experienced a marked decline in quotas and, coupled with a material decline in shore prices, has led to financial problems for what was once a very lucrative fishery.

Under current federal legislation, licences are unassignable as security for loans. Therefore, in an attempt to shore up risk, the agency made every effort to obtain alternative security to minimize any potential for loss in a distress situation.

Agency staff will continue to work with fishers where there exists a potential for continued viability and recovery.

## Information Technology

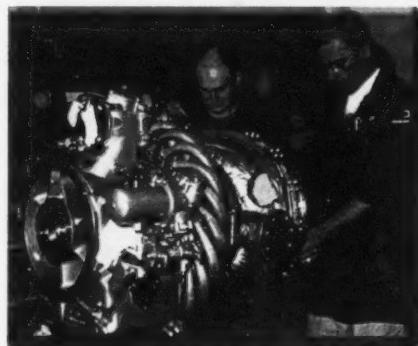
As with last year, the agency received no new loan applications for companies operating within this sector. The information and technology portfolio is very small, at this time, representing only 0.002 per cent of the agency's entire portfolio.



## Aerospace

Over the past fiscal year, the agency received no applications from companies operating within this industry. This portfolio continues to be limited to one client, with the investment exposure representing 12.8 per cent of the agency's portfolio. This exposure remains a sound investment, presenting a below average risk.

The mandate of the Lending Agency remains unchanged, and is very much receptive to new opportunities for investment into aerospace firms.



## Bilan de l'année

Dans l'ensemble, l'agence a connu une hausse de 21 % du nombre de demandes, par rapport à l'année précédente. À 85 %, le pourcentage de prêts approuvés demeure constant par rapport aux années précédentes. Il se compare aux 83 % de 2005, et aux 85 % de 2006. La valeur totale des prêts approuvés a été de 29 607 565 \$, une baisse de 34 % par comparaison aux 45 526 200 \$ de l'année passée.

Le secteur de la fabrication et de la transformation a connu la plus importante hausse de valeur des prêts approuvés par rapport à l'année précédente, puisque cette valeur est passée de 2,9 millions de dollars à 7,1 millions de dollars. Il s'agit d'une augmentation de 276 %.

Quant au secteur des pêches, le nombre de demandes a nettement grimpé encore cette année. Les 101 demandes présentées correspondent à une augmentation de 71 % par rapport à l'année dernière, et de 494 % par rapport à l'année précédente. La plupart de ces demandes de prêt peuvent être attribuées aux graves difficultés que le sud de l'Île a connues. Dans la plupart des cas, ces prêts devaient servir à restructurer la dette et, ainsi, alléger le fardeau financier causé par des années successives de faibles prises.

Le nombre de demandes provenant du secteur des petites entreprises est passé de 8 en 2005-2006 à 18 pour l'année faisant l'objet du présent bilan. Rien en particulier n'explique cette hausse. Il convient cependant de signaler que ce secteur arrive au deuxième rang quant au montant moyen des prêts demandés, de 359 700 \$, derrière la moyenne de 888 735 \$ du secteur de la fabrication et de la transformation.

Les secteurs de l'aérospatiale et de la technologie de l'information n'ont connu que peu ou pas de croissance au cours de la période se terminant le 31 mars 2007. Alors que le secteur de

l'aérospatiale demeure un investissement solide qui représente un risque moyen, on peut estimer que c'est tout le contraire pour la TI, un investissement plus risqué en raison de sa nature. Étant donné que les entreprises de TI ont généralement peu de biens corporels à offrir en guise de garantie pour le financement de leurs besoins, elles présentent un risque plus que moyen pour leurs créanciers.

Sur le plan opérationnel, l'agence a enregistré un profit de 1 087 612 \$ au cours de l'année à l'étude. Outre l'augmentation de la subvention provinciale de 3,4 millions de dollars qui a été consacrée à la provision pour pertes sur prêts de l'agence et qui est abordée plus loin dans le présent rapport, il y a eu des écarts dans trois autres cas, par rapport aux revenus prévus au cours du processus budgétaire.

- (1) L'intérêt versé par les emprunteurs a augmenté de 8,9 % (859 906 \$). Cette hausse est essentiellement attribuable à l'augmentation du portefeuille des prêts consentis aux pêcheurs de crabes des neiges (13,3 millions de dollars), aux usines de découpe de porcs et de boeufs (3 millions de dollars) et au secteur du tourisme (1,78 million de dollars).
- (2) Les frais administratifs, qui comprennent les frais de demande que paie l'emprunteur, servent à couvrir les dépenses d'administration liées à l'évaluation des demandes. Ces frais ont augmenté de 80 596 \$, ou de 135 %, par rapport au montant prévu de 60 000 \$.
- (3) Les autres montants non prévus sont les intérêts perçus sur des prêts consentis dans le cadre du Programme de prêts pour le recours à des sources d'énergie de remplacement, d'une somme de 38 203 \$, et les revenus provenant des mises sous séquestre, de 13 804 \$.

En ce qui a trait aux dépenses de l'agence, le budget approuvé des frais d'exploitation généraux (loyer, services publics, équipement, salaires, etc.), outre les frais d'intérêt et les provisions pour pertes sur prêts, était de 948 896 \$. Les dépenses réelles ont été de 914 382 \$. Les deux seuls écarts d'importance, signalés dans les états financiers ci-joints, visent les frais d'intérêts et les provisions pour pertes sur prêts.

Les frais d'intérêt payés par l'agence à la province sont compensés par les revenus d'intérêt sur les prêts qu'elle consent à ses clients.

Historiquement, une augmentation de revenu se traduit par une augmentation de ce que l'agence verse au gouvernement. Il n'en a cependant pas été ainsi en 2007, car les taux à court terme favorables des douze derniers mois ont mené à une marge quelque peu supérieure sur les prêts que l'agence a octroyés à ses emprunteurs.

Les provisions pour pertes sur prêts sont déterminées annuellement par l'agence. Il s'agit d'une estimation des pertes possibles, compte tenu du portefeuille de prêts existants. C'est là un élément important du processus budgétaire. Les provisions pour pertes sur prêts étaient initialement de 2 903 994 \$ pour l'exercice 2006-2007. Cependant, en raison de la situation des pêcheurs de crabes des neiges et de la viabilité future d'un important emprunteur du secteur agricole et d'un fabricant, nous avons dû revoir à la hausse les pertes projetées de 3,4 millions de dollars.

### **Petites entreprises**

La catégorie des petites entreprises englobe les sociétés et entreprises qui n'entrent pas dans les définitions des autres secteurs de l'Île, conformément au présent rapport. Peuvent faire partie de cette catégorie les entreprises de restauration, de construction, de terrassement, de vente au détail et de service aux entreprises. Toutefois, l'intervention de l'agence se limite au financement hypothécaire, notamment, pour les travaux de construction ou de rénovation des locaux appartenant aux clients et de l'équipement utilisé pour la production des

revenus de l'entreprise. Aucun financement n'est consenti pour le fonds de roulement ou les améliorations locatives, ou en fonction de la survaleur.

À la fin de l'exercice, le portefeuille des prêts aux petites entreprises comportait 13 583 973 \$ en prêts consentis à 59 clients, ce qui représente 8,3 % du portefeuille total de l'agence. Ce portefeuille a crû de 18,3 % par rapport à l'année précédente, et aucun client n'avait de prêt en souffrance à la fin de l'exercice. Au cours de l'exercice précédent, trois clients affichaient des arriérés sur des prêts totalisant 438 030 \$.

Au cours du dernier exercice, l'agence n'a reçu que huit demandes, dont sept ont été approuvées, pour un total de 2 518 000 \$. Bien que le nombre de demandes ait été inférieur par rapport aux 18 demandes de l'année précédente, la valeur des prêts a été à peu près la même. Ainsi, le montant de prêt approuvé a été en moyenne de 359 714 \$ pour les petites entreprises. Cette moyenne est élevée, par comparaison au prêt moyen approuvé pour les autres secteurs.

### **Agriculture**

À la fin de l'exercice se terminant le 31 mars 2007, 46,8 % (260) des clients de l'Agence de prêt de l'Île-du-Prince-Édouard faisaient partie du secteur agricole de l'I.-P.-É. L'agriculture accaparaît 40,5 millions de dollars, ou 24,8 % du portefeuille total de prêts, ce qui correspond à une hausse de 703 758 \$ (ou de 1,8 %) par rapport à l'année précédente. Cette hausse peut être attribuée aux demandes de prêts pour fonds de roulement, lesquelles sont passées de 16,9 millions de dollars à la fin de l'exercice 2006, à 18,3 millions de dollars à la fin de l'exercice 2007. Il s'agit d'une augmentation de 1,4 million de dollars. À l'opposé, les prêts pour immobilisations se sont abaissés de 400 000 \$ pour passer de 22,1 millions de dollars à 21,7 millions de dollars au cours de la même période. Les prêts destinés à des investissements ou à des loyers, d'un total de 800 000 \$, n'ont représenté que 2 % du total des prêts dans ce

secteur et n'ont pas changé de façon appréciable au cours de l'année.



Globalement, au cours de l'année, l'agence a reçu pour ce secteur 28 demandes visant des prêts de 5,6 millions de dollars : 11 demandes de prêts pour fonds de roulement totalisant 1,2 million de dollars, et 17 prêts pour immobilisations totalisant 4,4 millions de dollars. Les 11 demandes de prêts pour fonds de roulement ont été approuvées, et 14 des 17 demandes de prêts pour immobilisations ont été approuvées, ce qui a donné un total de 3,2 millions de dollars. Vingt-cinq nouveaux prêts ont donc été approuvés au cours de l'année, d'un total de 4,4 millions de dollars.

On a cependant constaté une baisse dans le nombre de prêts demandés et le montant de ces prêts, par rapport à l'année précédente. Le nombre de prêts était inférieur de 12, ou 30 %, et le montant total, de 3,9 millions de dollars, par rapport à l'année précédente. Le secteur de l'agriculture a soumis 17 % des demandes faites à l'agence, et les montants demandés ont représenté 13 % du montant total demandé au cours de l'année à l'étude.

Les demandes de fonds neufs étaient en baisse, mais l'agence a continué de travailler en étroite collaboration avec les clients existants du secteur agricole qui éprouvent des difficultés financières. Nous avons aidé certains clients dont les fermes étaient jugées viables à long terme en restructurant leurs dettes. Nous nous attendons à continuer de recevoir de nos actuels clients des demandes d'aide visant la restructuration de la dette et évaluerons ces demandes au fur et à mesure.

Le nombre de comptes en souffrance à la fin de l'exercice, dans la catégorie des comptes courants, a fléchi de 49 à 42 l'année dernière, mais le montant en argent a augmenté d'un peu moins de 400 000 \$ pour atteindre les 4 millions de dollars. Cela représente environ 47 % des arriérés de l'ensemble du portefeuille, aussi bien en ce qui concerne le nombre de comptes que le montant total. C'est quand même une baisse de 67 % du nombre de comptes et de 80 % du montant total, par rapport à l'année précédente.

Dans la catégorie des comptes en souffrance, c'est-à-dire les prêts arriérés depuis plus de 90 jours ou les prêts pour lesquels nous avons décelé un risque de perte, on a enregistré une hausse du nombre de 18 à 21 au cours de l'exercice se terminant en 2007. Cependant, le montant en argent a diminué pour passer de 2,7 millions de dollars à 1,4 million de dollars. C'est sans doute l'effet de l'ajout de plusieurs petits comptes dans cette catégorie, au cours de l'année, et de la résolution de certains gros comptes au cours de la même période.

La catégorie des terres acquises englobe les anciens prêts en souffrance pour lesquels nous nous sommes prévalu de notre garantie et avons acquis les titres de propriété faisant l'objet d'une hypothèque garantissant le prêt. Une fois la terre indiquée comme ayant été acquise, nous la mettons en vente dans le but de récupérer notre investissement. Cette catégorie est passée de deux à quatre comptes et représentait un total de 1 million de dollars à la fin de l'exercice 2007.

La saison de la culture de la pomme de terre a commencé tôt en 2006, grâce à des conditions favorables à la plantation, au tout début de la saison. En raison de la période de précipitations supérieures à la moyenne vers la fin du printemps, suivie de plusieurs semaines de temps très chaud, la croissance des pommes de terre a été très rapide et de nombreux producteurs ont par conséquent connu des problèmes de pommes de terre au cœur creux. Le rendement et la taille étaient bons, mais les entreprises de conditionnement et d'emballage ont éliminé plus de pommes de terre que la moyenne

habituelle en raison des problèmes de cœur creux. Les prix ont décliné légèrement par rapport à l'année précédente, mais le taux élevé d'élimination et les initiatives de contingent de culture ont contribué au maintien des prix en causant une baisse de l'offre.

L'avenir continuera d'être difficile pour le secteur de la pomme de terre de l'Île, car, pour de nombreux producteurs, le niveau d'endettement a augmenté et les exigences relatives au service de la dette sont grandes. Il leur faudra vraisemblablement plusieurs bonnes années pour se remettre des pertes passées et revenir à la rentabilité.

Le secteur porcin n'a pas connu de grands changements au cours du dernier exercice, car les prix sont demeurés en baisse et inférieurs au niveau qui permet à la plupart des producteurs d'en tirer un profit. Les coûts de production ont poursuivi leur montée, ce qui a réduit les marges de profit et fait croître les pertes. Les risques que court l'agence sont minimes, pour ce qui est du financement à long terme d'éleveurs de porcs particuliers. Cependant, l'agence administre un certain nombre de prêts consentis à des producteurs de porcs dans le cadre de programmes lancés par le ministère de l'Agriculture et approuvés antérieurement. En 2005, on a offert aux producteurs la possibilité de consolider leurs dettes, et la plupart d'entre eux l'ont fait. Cette possibilité leur a été offerte, car les programmes antérieurs avaient été annulés et la consolidation simplifiait les choses, sur les plans de la comptabilité et de l'administration interne.

La découverte de cas d'encéphalopathie spongiforme bovine (ESB), aussi appelée « maladie de la vache folle », en mai 2003, a causé une chute immédiate des prix du bœuf et la fermeture de la frontière américaine aux exportations canadiennes de bovins. Depuis, la frontière a été rouverte et les prix se sont lentement redressés parallèlement aux prix des bovins d'engraissement pour atteindre, en décembre 2006, les prix de décembre 2003. Cependant, comme pour le secteur porcin, les

coûts de production en hausse l'emportent sur les augmentations de prix, ce qui produit un effet négatif sur les marges de profit ou fait grimper les pertes. Il demeure essentiel de suivre et contrôler tous les coûts de production. À moins que les prix augmentent ou que les producteurs trouvent des façons de réduire leurs coûts, le secteur continuera d'éprouver des difficultés.

Étant donné qu'une forte proportion des producteurs bovins du Canada atlantique se trouve à l'Î.-P.-É., l'ouverture d'une usine de découpe à Borden-Carleton en 2004 semblait stratégiquement sensée pour les producteurs de l'Île. Cependant, parce que l'ouverture s'est produite dans le sillage de la crise de l'ESB et en pleine période de repli du secteur, l'usine n'a jamais pu fonctionner à pleine capacité. Elle subit donc continuellement des pertes d'exploitation depuis son ouverture, et il faudra étudier la question de savoir combien de temps elle pourra continuer à fonctionner ainsi. L'agence continuera de travailler avec ses clients actuels du secteur bovin et d'offrir son appui dans tous les cas où la viabilité à long terme est possible.

La forte demande de bleuets a mené à une forte croissance de ce secteur, au cours des dix dernières années. Les producteurs ont profité d'une récolte de 8,4 millions de livres en 2006 et de prix atteignant environ 1 \$ la livre, ce qui est supérieur aux 0,90 \$ la livre et à la récolte de 8 millions de livres de l'année précédente.

Le ministère de l'Agriculture a lancé le Programme de prêts pour l'expansion de la production de bleuets au milieu des années 1990 pour financer les producteurs qui faisaient leur entrée dans le secteur et ceux qui voulaient augmenter leur production. Le programme comportait des modalités de remboursement flexibles auxquelles le ministère de l'Agriculture a plus récemment ajouté un volet prévoyant l'allègement des intérêts dans le but d'atténuer les coûts de l'intérêt composé. À la fin de l'exercice, l'agence avait reçu environ 95 % des fonds d'allègement d'intérêts, ce qui s'est traduit par une certaine diminution de la dette impayée

dans le cadre de ce programme. Certains producteurs doivent encore travailler à exploiter leurs terres de telle sorte qu'ils puissent récolter suffisamment de bleuets pour en tirer les revenus nécessaires au service de la dette correspondante. Dans la majorité des cas, cela est attribuable à une sous-capitalisation, de là leur incapacité à réaliser les travaux de développement requis, ou à une terre qui n'a pas donné les résultats attendus. L'agence continuera de consulter les spécialistes du secteur au sein du ministère de l'Agriculture pour trouver des façons d'aider ces producteurs, s'ils sont jugés viables.

Le secteur de la canneberge de l'I.-P.-É. a produit une petite récolte de 400 000 livres de fruits que les producteurs ont vendus environ 0,43 \$ la livre en 2006. Cette récolte a représenté une baisse, par rapport aux 500 000 livres de 2005. Les producteurs sont limités aux prix courants des fruits à consommer en frais, car il n'existe pas en ce moment d'installation leur permettant de surgeler et d'entreposer leur récolte. Ils n'ont pas d'autre choix que de vendre quand les stocks sont élevés et les prix, bas. Les producteurs se sont dotés d'une association de producteurs chargée d'essayer de s'assurer d'une meilleure présence sur le marché et de prix supérieurs pour leur produit, mais elle n'a pas eu l'effet souhaité. L'association cherche aussi à obtenir l'appui du gouvernement à des solutions ou à une aide financière qui permettraient aux producteurs de réduire leur endettement et de produire davantage.

## Tourisme

Au cours du dernier exercice, l'agence a reçu 12 demandes de prêts s'élevant à 3 188 665 \$, et en a approuvé 10, pour un total de 2 938 665 \$. À la fin de l'exercice, le portefeuille du secteur du tourisme, lequel avait connu une croissance modeste au cours des trois années précédentes, était composé de 48 clients ayant des prêts de plus de 28,5 millions de dollars. Ce portefeuille représente 17 % du portefeuille total de prêts de l'agence.

Ce portefeuille demeure relativement sain et englobe peu de comptes douteux. Malgré une augmentation de 1 million de dollars par rapport à l'année précédente, qui porte le total à 1 543 028 \$, les arriérés demeurent faibles. L'agence ne consent pas de prêts pour les fonds de roulement liés aux dépenses annuelles de démarrage. Les prêts consentis dans ce secteur sont garantis par des biens réels et, comme tels, sont des prêts hypothécaires traditionnels s'accompagnant d'un risque plus facile à mesurer.



À l'instar des autres provinces maritimes, l'île a connu une nette baisse du nombre de visites de citoyens américains en raison de la hausse des prix de l'essence, de la fermeté du dollar canadien et de l'exigence d'un passeport pour franchir la frontière. Les exploitants d'entreprises touristiques doivent surmonter ces problèmes particuliers pour pouvoir attirer des visiteurs américains à l'I.-P.-É.

Pour continuer sur une note plus optimiste, signalons que le secteur a connu une saison très prospère pour ce qui a trait aux congrès. L'année 2006 a été l'une des meilleures que l'île a connue sur ce plan.

## *Fabrication et transformation*

L'investissement dans ce secteur englobe des industries très variées. Les entreprises de transformation des aliments, les entreprises bioscientifiques et pharmaceutiques, les équipementiers et entreprises de construction navale, les transformateurs de métaux et fabricants de machines et les producteurs de meubles et d'appareils n'en sont que quelques exemples. Au cours de l'exercice 2006-2007, l'agence a reçu 11 demandes de financement dont 8 ont été approuvées. Le nombre de demandes avait été le même l'année précédente.

En raison de la taille et de la complexité des diverses entreprises de ce secteur, quelques demandes de prêts élevées produisent un effet d'asymétrie sur le montant moyen des prêts. Cependant, au cours de la dernière année, la valeur globale des prêts approuvés a été de 7 107 000 \$, ce qui représenterait une hausse de 135 % par rapport à l'année précédente. L'investissement total de l'agence dans ce secteur, à la fin de l'exercice, était de 23 841 040 \$, répartis entre 40 prêts. Cela représente un fléchissement de ce portefeuille de l'ordre de 5,9 millions de dollars, ou de 19 %, par rapport à l'année précédente. À la fin de l'exercice, le portefeuille de la fabrication et de la transformation représentait 14,6 % de l'ensemble du portefeuille de prêts de l'agence.

En ce qui a trait aux arriérés de ce secteur à la fin de l'exercice, ils s'élevaient à 3 029 177 \$, représentaient 12,7 % du portefeuille et étaient liés à trois comptes. En raison des comptes en souffrance et des comptes ayant fait l'objet d'acquisitions, 1 508 632 \$ se sont ajoutés à ce montant, et cinq comptes sont passés dans la catégorie des emprunteurs en difficulté. À la même époque de l'année précédente, quatre clients ayant des comptes courants affichaient des arriérés globaux de 332 437 \$. Cependant, on peut attribuer cette augmentation par rapport à l'année précédente à un client dont le compte est passé à la catégorie des comptes en souffrance. Pour ce qui est des clients dont les comptes sont en souffrance ou ont fait l'objet d'une acquisition, on a constaté une baisse de la

valeur en argent d'environ 30 % cette année, par rapport à l'année précédente. Douze comptes étaient en souffrance ou avaient fait l'objet d'une acquisition l'année précédente, et s'élevaient à 2 171 950 \$.

Le raffermissement constant du dollar canadien a obligé les fabricants exportateurs à gérer leurs activités plus efficacement. Nos producteurs, pour demeurer concurrentiels, peuvent entre autres recourir à de nouvelles façons de réduire les dépenses d'exploitation en conséquence des marges de profit qui s'amenuisent, ou atténuer le risque commercial par la diversification des produits.

## *Pêches*

Sur 12 mois, le secteur des pêches a représenté 63 % de toutes les demandes que l'agence a reçues. Des 101 demandes reçues, 52 visaient une restructuration de la dette, 35, l'acquisition d'immobilisations comme des navires ou des moteurs, et les 14 autres, des fonds de roulement. Le taux d'approbation de ce secteur a été de 87 %, ou 88 prêts. Cela correspond aux statistiques sur les approbations de l'année précédente. À la fin de l'exercice, le risque total de l'agence était de 33 580 270 \$, prêtés à 154 clients. Ces prêts accaparent 20 % du portefeuille global de prêts de l'agence, une hausse de 56 % de la valeur de ce portefeuille par rapport à l'année précédente. Le nombre d'emprunteurs a augmenté de 73 %.



Le secteur des pêches du nord de l'Île continue de jouir de prises stables, alors que le déclin se poursuit pour le secteur du sud et le secteur de la pêche d'automne. Certains pêcheurs ont par conséquent été obligés de financer leurs frais de subsistance personnels en s'adressant à leurs acheteurs de poisson et en recourant à des prêts à court terme et à taux d'intérêt élevé. En dépit des efforts que l'agence a déployés pour offrir des prêts de consolidation de la dette garantissant un niveau d'endettement raisonnable aux pêcheurs qui connaissent des baisses de revenu, des cas de prêts douteux ont surgi. À la fin de l'exercice, les arriérés des prêteurs de cette catégorie représentaient 4 521 159 \$ des 12 367 854 \$ en arriérés totaux. Les 7 846 695 \$ restants, équivalant à 63 % du total des arriérés du portefeuille des pêches, étaient attribuables à des prêts consentis à des prêteurs du secteur de la pêche du crabe des neiges. Pour ces pêcheurs, les problèmes financiers d'une pêche qui a déjà été très lucrative sont attribuables à une baisse marquée des quotas, conjuguée à un net repli des prix au débarquement.

En vertu des lois fédérales actuelles, les permis sont incessibles, en guise de garantie de prêt. Par conséquent, pour essayer de consolider le risque, l'agence a déployé tous les efforts possibles pour obtenir une autre forme de garantie permettant de réduire au minimum tout risque possible de perte en situation de détresse.

Le personnel de l'agence continuera de travailler avec les pêcheurs dans les cas où le maintien de la viabilité et la reprise sont possibles.

## *Technologie de l'information*

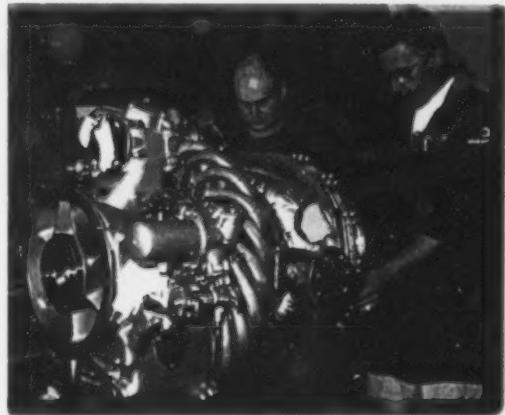
Comme au cours l'année précédente, l'agence n'a reçu aucune nouvelle demande de prêt de la part d'entreprises de ce secteur. En ce moment, le portefeuille de la technologie de l'information est de très petite taille et ne représente que 0,002 % du portefeuille total de l'agence.



## *Aérospatiale*

Au cours du dernier exercice, l'agence n'a reçu aucune demande de la part d'entreprises de ce secteur. Ce portefeuille se limite toujours à un client, et le risque représente 12,8 % du portefeuille de l'agence. Il s'agit d'un investissement solide qui représente un risque inférieur à la moyenne.

Le mandat de l'Agence de prêt demeure le même. L'agence est très réceptive aux nouvelles occasions d'investissement dans les entreprises aérospatiales.





# *Corporate Directory*

## **Appendix A**

**As of March 31, 2007**

### ***Executive***

**Brian MacPhee**  
Chairman

**Gerard LeClair**  
Vice-Chairman

**Peter A. Wilson\***  
Secretary-Treasurer and Chief Executive Officer

### ***Members of the Board***

**Norman Gallant**  
North Rustico, PE

**Paul R. Jolley**  
Deputy Provincial Treasurer

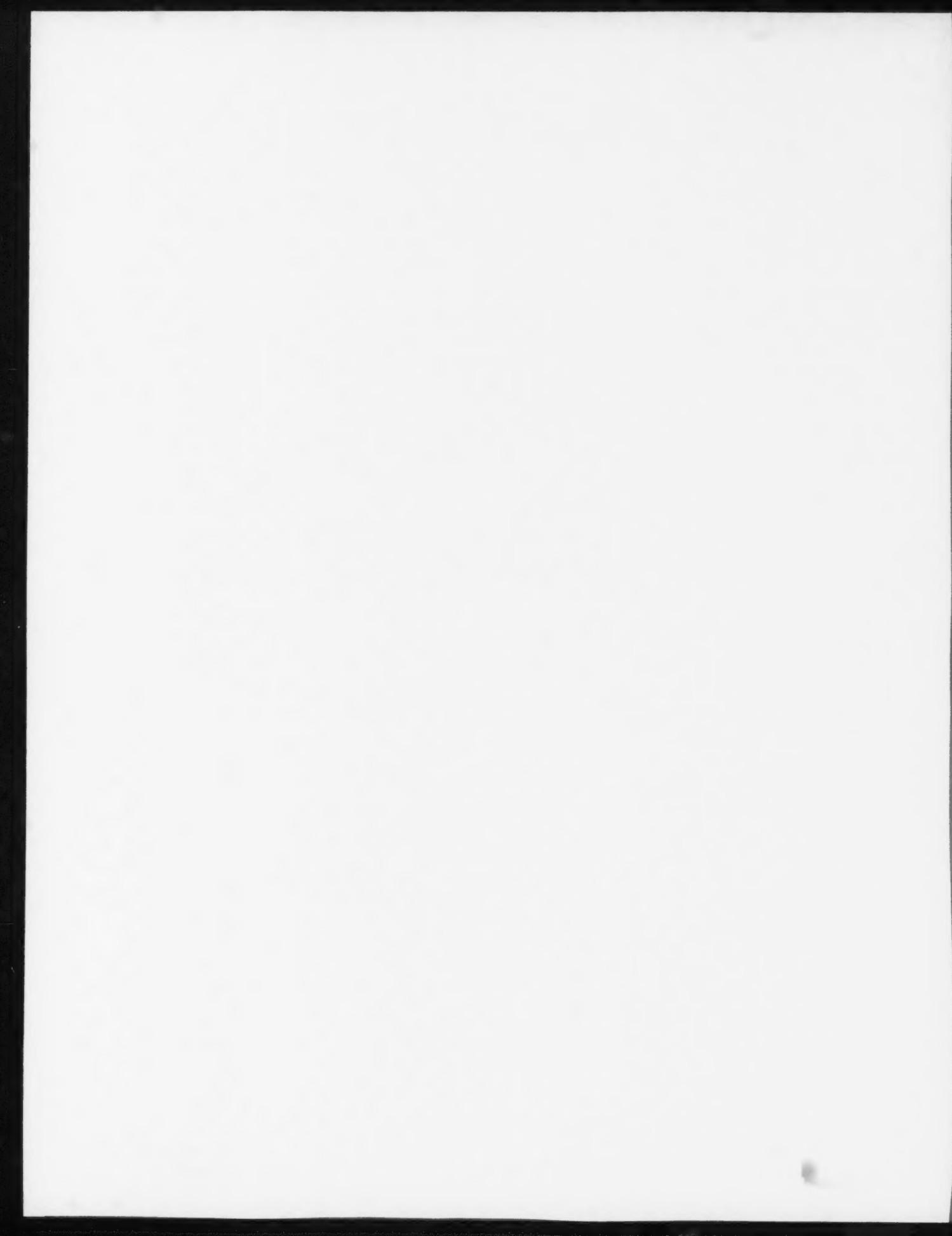
**Jean Viaene**  
Newtown Cross, PE

**Reagh Hicken**  
Acting Deputy Minister  
Department of Development and Technology

**Earl Davison**  
Kensington, PE

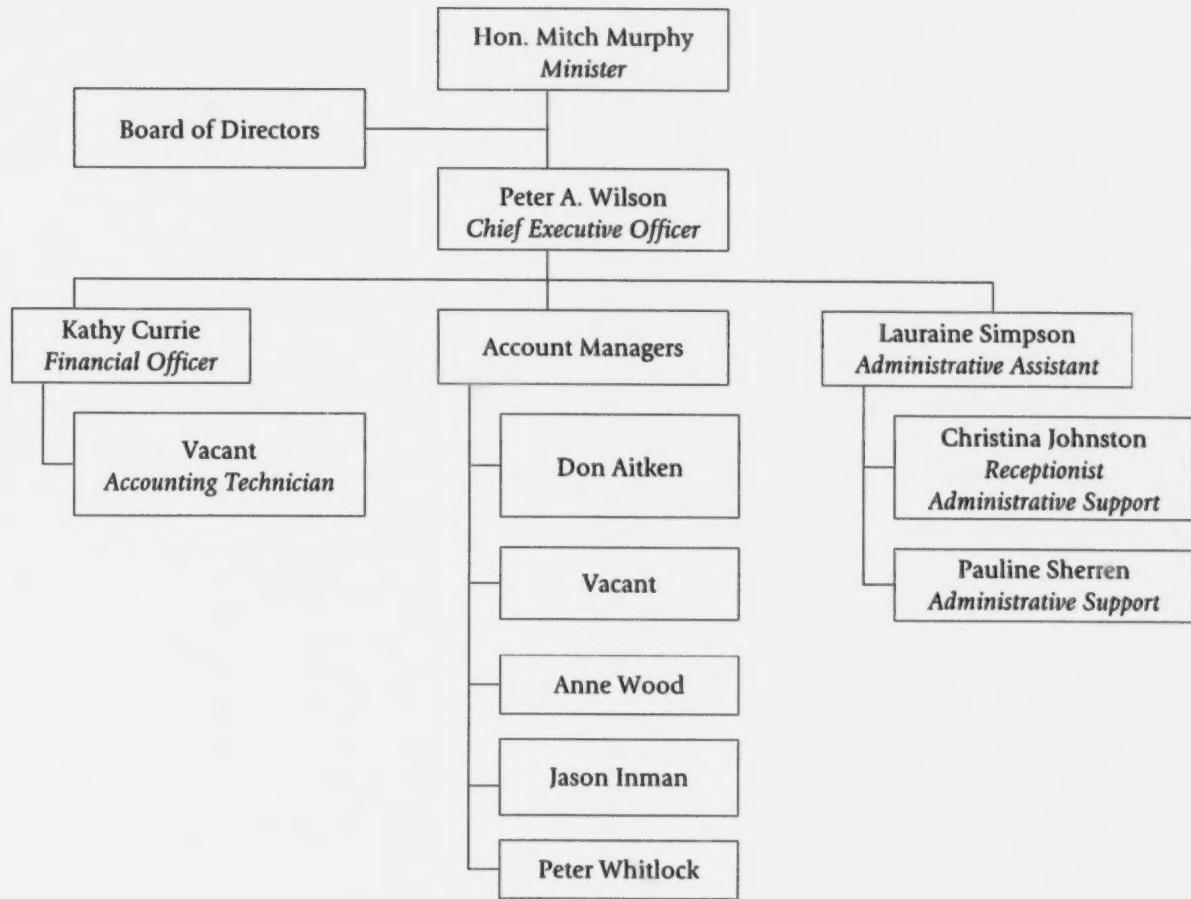
**Wayne Fudge**  
Charlottetown, PE

\* Non-voting



## Organizational Chart

### Appendix B





## *Auditor's Report*

## **Appendix C**





**ArsenaultBestCameronEllis**  
CHARTERED ACCOUNTANTS

A Member Firm of The AC Group of Independent Accounting Firms Limited

Chartered Accountants &  
Business Advisors  
Prince Edward Place  
80 Water Street  
PO Box 455  
Charlottetown, Prince Edward Island  
Canada C1A 7L1  
Telephone (902) 368-3100  
Fax (902) 566-5074  
[www.acgca.ca](http://www.acgca.ca)

June 7, 2007

**Auditors' Report**

**To the Board of Directors**

We have audited the balance sheet of P.E.I. Lending Agency as at March 31, 2007 and the statements of earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*ArsenaultBestCameronEllis*

**Chartered Accountants**



## *Financial Statements*

### **Appendix D**



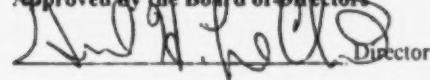
# P.E.I. Lending Agency

Balance Sheet

As at March 31, 2007

	2007 \$	2006 \$
<b>Assets</b>		
Cash	132,857	684,624
Accounts receivable (note 10)	155,685	151,070
Due from Province of Prince Edward Island (note 3)	3,400,000	4,750,000
Loans receivable (note 4)	141,243,659	128,868,901
Property holdings and leased property (note 5)	368,744	250,697
Investment in private company preferred shares (note 6)	-	4,152
	<u>145,300,945</u>	<u>134,709,444</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (notes 8 and 10)	513,157	557,288
Due to Province of Prince Edward Island (note 3)	1,330,000	1,000,000
Notes payable (note 7)	<u>143,816,914</u>	<u>134,598,894</u>
	<u>145,660,071</u>	<u>136,156,182</u>
<b>Contingent liabilities (note 8)</b>		
<b>Deficit</b>		
Retained earnings (deficit) - Beginning of year	(1,446,738)	40
Excess revenue (expenses) for the year	<u>1,087,612</u>	<u>(1,446,778)</u>
Deficit - End of year	<u>(359,126)</u>	<u>(1,446,738)</u>
	<u>145,300,945</u>	<u>134,709,444</u>

Approved by the Board of Directors.



Director



Director

(2)

**P.E.I. Lending Agency**  
**Statement of Earnings**  
**For the year ended March 31, 2007**

	2007	2006
	Budgeted (Unaudited)	Actual
	\$	\$
<b>Revenue</b>		
Grants from Province	1,400,466	4,800,468
Alternative energy loan fees	-	38,203
Interest from borrowers	9,630,000	10,489,906
Interest from deposits	25,000	48,917
Prepayment interest	-	16,334
Agricultural leases	-	1,577
Service fees	60,000	140,496
Post-receivership income	-	13,804
	<b>11,115,466</b>	<b>15,549,705</b>
	<b>11,115,466</b>	<b>16,201,611</b>
<b>Expenses</b>		
Office supplies and printing	19,600	17,703
Telecommunications	14,800	9,785
Rent and occupancy	107,800	106,083
Meetings and hosted conferences	4,000	3,225
Furniture and computer equipment	13,000	1,742
Advertising and promotion	3,000	-
Office equipment rentals	16,000	7,238
Library and subscriptions	1,200	2,462
Insurance	-	7,886
Miscellaneous	1,500	4,089
Professional services	42,000	27,985
Salaries and benefits	686,396	709,396
Travel and training	39,600	16,788
Interest (note 10)	7,262,576	7,231,461
Provision for possible losses	2,903,994	6,316,250
	<b>11,115,466</b>	<b>14,462,093</b>
	<b>11,115,466</b>	<b>17,648,389</b>
<b>Excess revenue (expenses) for the year</b>		
	<b>-</b>	<b>1,087,612</b>
	<b>-</b>	<b>(1,446,778)</b>

(3)

**P.E.I. Lending Agency**  
**Statement of Cash Flows**  
**For the year ended March 31, 2007**

	2007 \$	2006 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess revenue (expenses) for the year	1,087,612	(1,446,778)
Items not affecting cash		
Provision on investment in private company preferred shares	-	517,000
	<u>1,087,612</u>	<u>(929,778)</u>
Net change in non-cash working capital items		
Increase in accounts receivable	(4,615)	(147,523)
Decrease in accounts payable and accrued liabilities	(44,130)	(13,967)
Decrease (increase) in due from Province of Prince Edward Island - current operations	<u>1,350,000</u>	<u>(2,060,000)</u>
	<u>2,388,867</u>	<u>(3,151,268)</u>
<b>Financing activities</b>		
Decrease (increase) in loans receivable (net)	(12,374,758)	1,503,818
Increase in notes payable	45,375,000	14,000,000
Retirement of notes payable	(36,156,981)	(14,147,927)
Decrease in investment in private company preferred shares	4,152	790
Increase in due to Province of Prince Edward Island - alternative heating loan program	<u>330,000</u>	<u>1,000,000</u>
	<u>(2,822,587)</u>	<u>2,356,681</u>
<b>Investing activities</b>		
Additions to and purchases of property holdings	(987,393)	(1,473,057)
Reductions and proceeds on disposal of property holdings	637,120	1,580,628
Decrease in leased property (net)	232,226	362,864
	<u>(118,047)</u>	<u>470,435</u>
<b>Change in cash</b>	<b>(551,767)</b>	<b>(324,152)</b>
<b>Cash - Beginning of year</b>	<b>684,624</b>	<b>1,008,776</b>
<b>Cash - End of year</b>	<b>132,857</b>	<b>684,624</b>
<b>Supplementary disclosure</b>		
Interest and dividends received	10,507,817	9,482,090
Interest paid	7,286,099	7,104,152

(4)

# **P.E.I. Lending Agency**

Notes to Financial Statements

**March 31, 2007**

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## **1 Status of the corporation**

P.E.I. Lending Agency is a Crown corporation established by a proclamation of the Lending Agency Act dated December 31, 1998. The Agency's financial results are included in the public accounts of the Province of Prince Edward Island.

## **2 Summary of significant accounting policies**

These financial statements have been prepared in accordance with generally accepted accounting principles.

### **a) Allowance for possible losses**

An allowance is maintained which is considered adequate to absorb all credit losses and off-balance sheet items including guarantees. The allowance is deducted from the applicable asset on the balance sheet, except for guarantees. The general allowance for guarantees of \$31,316 (2006 - \$50,000) is included in accounts payable.

The allowance consists of specific and general provisions.

Specific provisions include the accumulated allowances for losses on particular assets required to reduce the book values to estimated realizable amounts. Specific provisions on loans receivable and leased property total \$14,172,998 (2006 - \$13,129,053).

The company reviews its loan portfolios and leased properties on an ongoing basis to assess whether a loan should be classified as impaired, or an allowance or write-off recorded.

A variety of methods are used to determine the amount expected to be recovered from impaired loans and property holdings, including estimated future cash flows and the estimated fair value of the underlying security and value of any collateral security taken.

A general provision on loans receivable and leased property of \$6,500,230 (2006 - \$4,239,026) includes accumulated allowances for losses which are prudential in nature and cannot be specifically identified. The general provision is based on past performance of similar loans, the level of the specific provision, management's judgement, the economic climate and the maturity and financial strength of the investee.

## **P.E.I. Lending Agency**

### Notes to Financial Statements

**March 31, 2007**

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#### **b) Loans receivable**

Working capital loans are issued to qualified lenders and are recorded at cost less an allowance for possible losses. These loans bear interest at the Toronto Dominion Bank prime rate plus 1% to 2 ½% and are repayable at the end of each sector's operating season or specific project.

Mortgage loans consist of loans issued to Prince Edward Island enterprises for purposes of acquiring property and equipment. These loans are recorded at cost less an allowance for possible losses. These loans are issued at long-term interest rates and are repayable over various terms to a maximum of 20 years with interest rates ranging from 4% to 14%. Working capital loans specific to the 2004 Hog Consolidation Program were provided at Toronto Dominion Bank prime rate less .5% to prime plus 1%.

Interest income is recorded on the accrual basis until such time as the loan is classified as non-current. A loan is classified as non-current when the Corporation has been unsuccessful in its attempt to collect arrears payments or have the loan satisfied.

An impaired loan is a loan in arrears in excess of 120 days or where in management's opinion there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest.

#### **c) Leased property**

Leased property represents the cost to acquire agricultural property based on appraised market value at the inception of the lease less an allowance for possible losses. Operating leases are negotiated with the lessee for a maximum of 5 years at a rate of interest tied to commercial lending rates.

Lease income is recorded on an accrual basis until the lease is repaid or the property is transferred to property holdings - foreclosed projects. When a lease is in arrears in excess of 120 days or when in management's opinion there is no longer reasonable assurance of the timely collection of the full amount of principal and interest, the lease is classified as impaired.

#### **d) Property holdings and amortization**

Office furniture and equipment and computer equipment are fully expensed in the year of acquisition. The amount expensed during the year ended March 31, 2007 was \$2,107 (2006 - \$2,211).

Foreclosed projects are carried at the lower of cost of the impaired asset prior to realization of the related security and the underlying estimated realizable value of the security.

The reduction from cost to estimated realizable value is recorded as an allowance for possible losses.

## **P.E.I. Lending Agency**

Notes to Financial Statements  
**March 31, 2007**

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### **e) Investment in private company**

Investment in preferred shares of a private company is recorded at the lower of cost and estimated realizable value.

It is not practical within constraints of timelines and cost to determine the fair value of the investment as it is a closely held private company that has no organized financial market. The estimated realizable value of this investment is based on expected future cash flows.

The reduction from cost to estimated realizable value is recorded as an allowance for possible losses.

### **f) Pension liabilities**

The Corporation's staff are members of the Province of Prince Edward Island pension plan. The pension plan obligation is a liability of the Province and not the Corporation and no liability for these costs has been accrued by the Corporation at March 31, 2007.

### **g) Estimated realizable value of financial instruments**

Estimated realizable value (fair value) is subjective in nature requiring a variety of valuation techniques and assumptions. The company's financial instruments are not exchangeable and it is difficult, and often not practical, to determine their estimated realizable value. Where it is possible to estimate realizable value, the company assumes that it will not sell the assets or the liabilities, taking into account only changes in credit risk as credit risk is the main cause of change in the estimated realizable value of the company's financial instruments. Credit risk is defined as the risk that the note holder will fail to discharge an obligation in whole or in part resulting in a financial loss to this company.

### **h) Management estimates**

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those reported.

## **P.E.I. Lending Agency**

Notes to Financial Statements

**March 31, 2007**

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### **3 Due from (to) the Province of Prince Edward Island**

	<b>2007</b>	<b>2006</b>
	\$	\$
<b>Current operations</b>		
Balance - Beginning of year	4,750,000	2,690,000
Repaid by the province during the year	(4,750,000)	(2,690,000)
Grant receivable	3,400,000	4,750,000
 Balance - End of year	 3,400,000	 4,750,000
 <b>Alternative Heating loan program</b>		
Balance - Beginning of year	1,000,000	-
Advances received during year	330,000	1,000,000
Repaid to the province	-	-
 Balance - End of year	 1,330,000	 1,000,000

The Province advances funds to P.E.I. Lending Agency to be disbursed as unsecured loans administered by the company under the Alternative Heating Loan program. As at March 31, 2007, the company has disbursed \$1,209,380 in loans approved by the Provincial Department of Energy at an interest rate of 6% with repayment terms varying from one to five years and collected principal repayments of \$160,408.

Any principal repayments received on these loans plus any undisbursed program funds are to be repaid to the Province. Interest earned on the loans is revenue of the P.E.I. Lending Agency.

# P.E.I. Lending Agency

## Notes to Financial Statements

**March 31, 2007**

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### 4 Loans receivable

					2007	2006
	Impaired loans included in total	\$		Allowance for possible losses		
	Total	\$		General	Specific	Net
<b>Working capital loans</b>						
Agriculture	9,751,726	5,861,848	950,230	2,145,000	6,656,496	5,084,608
Tourism	144,031	-	-	-	144,031	70,528
Manufacturing and processing	4,478,993	-	-	-	4,478,993	2,784,972
Fisheries	2,074,200	-	-	-	2,074,200	913,642
Aquaculture	3,453	-	-	-	3,453	6,097
Small business	10,507	-	-	-	10,507	20,019
Beef Cash Flow	184,030	-	-	-	184,030	268,659
Hog Program	7,298,184	-	-	-	7,298,184	6,958,394
Aerospace	7,112,005	-	-	-	7,112,005	-
Information technology	36,791	-	-	-	36,791	40,751
	<b>31,093,920</b>	<b>5,861,848</b>	<b>950,230</b>	<b>2,145,000</b>	<b>27,998,690</b>	<b>16,147,670</b>
<b>Mortgage loans receivable</b>						
Alternative Heating program	934,539	-	-	-	934,539	419,735
Agriculture	10,131,637	-	150,000	1,022,000	8,959,637	9,140,337
Tourism	28,120,765	1,543,028	300,000	2,000,000	25,820,765	24,614,096
Manufacturing and processing	19,362,048	2,637,129	300,000	670,000	18,392,048	25,436,337
Fisheries	30,872,203	11,211,744	4,100,000	3,442,828	23,329,375	16,756,132
Aquaculture	126,683	126,683	-	85,000	41,683	34,427
Small business	13,573,467	329,830	100,000	-	13,473,467	10,924,533
Blueberry	7,365,084	2,608,039	450,000	1,490,000	5,425,084	5,728,973
Cranberry	2,565,116	2,565,115	150,000	1,150,000	1,265,116	1,167,026
Hog Programs	111,686	-	-	-	111,686	107,959
Aerospace	14,088,158	-	-	-	14,088,158	15,094,455
Other	3,571,581	2,488,464	-	2,168,170	1,403,411	3,297,221
	<b>130,822,967</b>	<b>23,510,032</b>	<b>5,550,000</b>	<b>12,027,998</b>	<b>113,244,969</b>	<b>112,721,231</b>
	<b>161,916,887</b>	<b>29,371,880</b>	<b>6,500,230</b>	<b>14,172,998</b>	<b>141,243,659</b>	<b>128,868,901</b>

(9)

## P.E.I. Lending Agency

Notes to Financial Statements

**March 31, 2007**

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### *Continuity of allowance for possible losses*

	2007 \$	2006 \$
<b>Allowance for possible losses - Beginning of year</b>	17,368,079	11,294,159
Add: Provision recorded during year	6,406,651	8,742,163
Less: Transferred to property holdings	(3,101,502)	(1,180,743)
Less: Loans written off during the year	-	(1,487,500)
<b>Allowance for possible losses - End of year</b>	<u>20,673,228</u>	<u>17,368,079</u>

### **5 Property holdings and leased property**

	2007 \$	2006 \$
Foreclosed projects - land, buildings and equipment held for resale	1,962,324	1,057,942
Less: Allowance for possible losses	<u>(1,593,890)</u>	<u>(1,039,781)</u>
	368,434	18,161
Leased property - agricultural leases	<u>310</u>	<u>232,536</u>
	<u>368,744</u>	<u>250,697</u>

### *Continuity of allowance for possible losses*

	2007 \$	2006 \$
<b>Allowance for possible losses - Beginning of year</b>	1,039,781	992,717
Add: Provision (recovery) recorded during year	(107,925)	246,107
Add: Transferred from loans receivable	3,101,502	1,193,000
Less: Write-offs	<u>(2,439,468)</u>	<u>(1,392,043)</u>
<b>Allowance for possible losses - End of year</b>	<u>1,593,890</u>	<u>1,039,781</u>

(10)

## P.E.I. Lending Agency

Notes to Financial Statements  
March 31, 2007

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### 6 Investment in private company preferred shares

	2007 \$	2006 \$
Investment in preferred shares	540,950	521,152
Less: Allowance for possible losses	<u>(540,950)</u>	<u>(517,000)</u>
	-	<u>4,152</u>

### *Continuity of allowance for possible losses*

	2007 \$	2006 \$
Allowance for possible losses - Beginning of year	517,000	-
Add: Provision recorded during year	23,950	517,000
Allowance for possible losses - End of year	<u>540,950</u>	<u>517,000</u>

### 7 Notes payable

	2007 \$	2006 \$
Short-term promissory notes	10,875,010	5,900,010
Long-term	<u>132,941,904</u>	<u>128,698,884</u>
	<u>143,816,914</u>	<u>134,598,894</u>

Short-term promissory notes are issued to the Province of Prince Edward Island with interest set monthly based on the Province's short-term lending rate in existence at the first day of the month. These notes are renewed on an ongoing basis with interest payable monthly.

The notes payable - long-term are issued to the Province of Prince Edward Island and have various repayment terms and interest rates ranging from 4.43% to 6.69%.

(11)

A( Ansonia Best Cameron Ellis  
Chartered Professional Accountants

## **P.E.I. Lending Agency**

Notes to Financial Statements  
**March 31, 2007**

---

The aggregate amount of principal payments required in each of the next five years to meet retirement provisions is as indicated below. Certain notes becoming due during the next five years have been assumed to be refinanced under similar terms:

	\$
Year ending March 31, 2008	9,976,137
2009	9,076,460
2010	9,542,658
2011	9,838,047
2012	10,239,687

### **8 Contingent liabilities**

- a) As of March 31, 2007, P.E.I. Lending Agency was contingently liable under a loan guarantee on behalf of a development company in the amount of \$31,316 (2006 - \$49,437) for which P.E.I. Lending Agency has included \$31,316 (2006 - \$50,000) in its allowance for possible losses. This portion of the allowance for possible losses is included in accounts payable. The guarantee is secured by a realty mortgage, and proceeds from liquidation are expected to cover the remaining amount of the guarantee.
- b) A counterclaim has been commenced against P.E.I. Lending Agency by two individuals in response to an action against these individuals for a deficiency remaining after realization on collateral held by the P.E.I. Lending Agency. The counterclaim seeks special and general damages of an unspecified amount, as well as punitive damages and costs.

The claim and counterclaim are presently ongoing, however, management has determined that no liability is likely to arise as a result of this counterclaim.

### **9 Commitments**

The P.E.I. Lending Agency new loans approved but not disbursed at March 31, 2007 amount to \$9,363,000 (2006 - \$4,637,600).

### **10 Related party transactions**

#### **Balance Sheet**

Included in accounts receivable is \$153,318 (2006 - \$149,557) due from a department of the Province of Prince Edward Island.

Included in accounts payable and accrued liabilities is \$398,896 (2006 - \$453,534) in accrued interest payable to the Province of Prince Edward Island.

## **P.E.I. Lending Agency**

Notes to Financial Statements

**March 31, 2007**

---

### **Statement of earnings**

Included in expenses is the following in interest paid/payable to the Province of Prince Edward Island:

	<b>2007</b>	<b>2006</b>
	\$	\$
Interest on long-term borrowings	6,607,943	6,939,139
Interest on short-term notes payable	623,518	272,128
	<hr/>	<hr/>
	7,231,461	7,211,267

The above transactions were recorded in the normal course of operations.

### **11 Operating lease**

The minimum annual lease payment required in the next year under an operating lease expiring June 30, 2007 is \$41,123 in base rent plus common area expenses of approximately \$60,000 annually.

(13)

 **Arsenault Best Cameron Ellis**  
Chartered Accountants

## P.E.I. Lending Agency

### Notes to Financial Statements

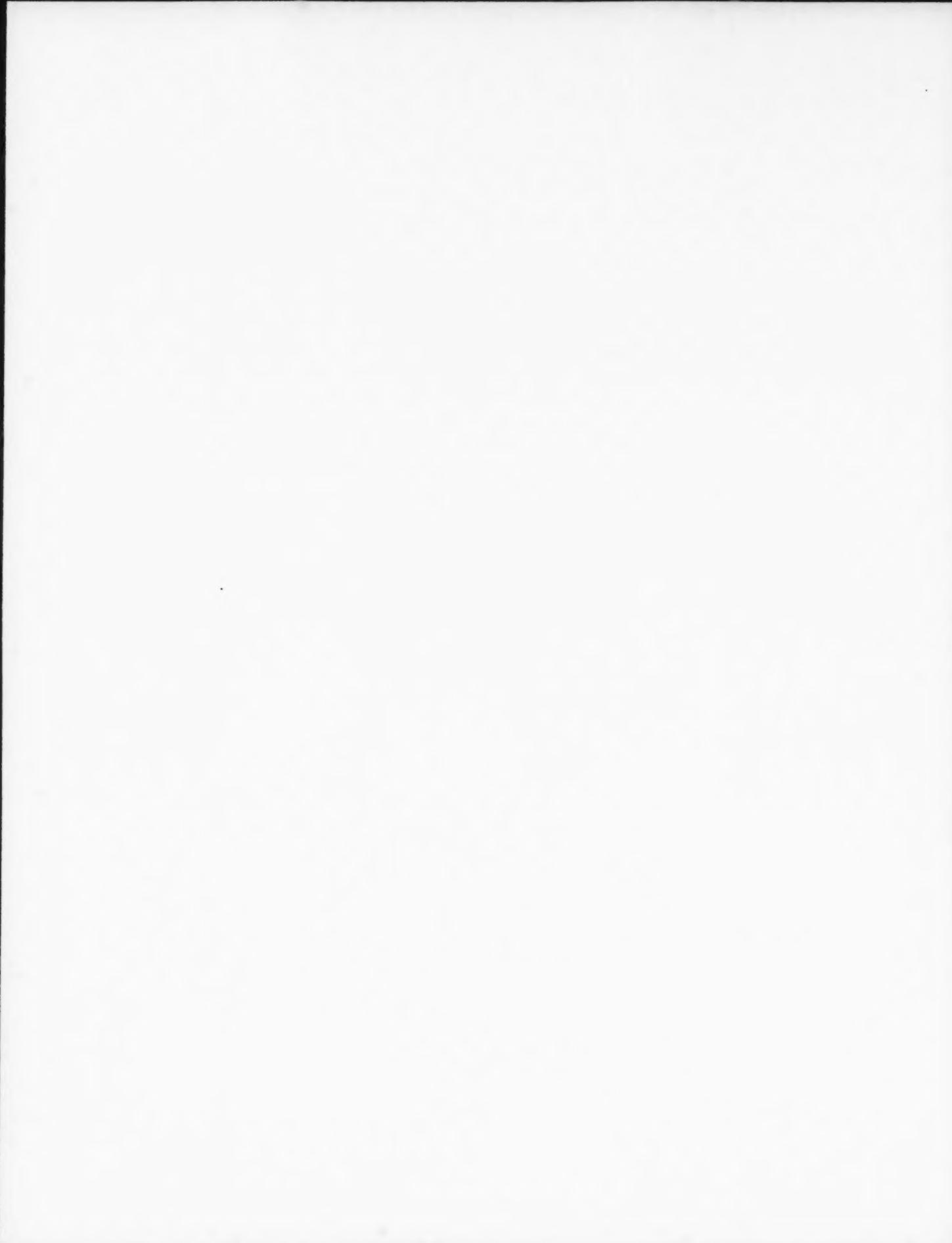
March 31, 2007

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#### 12 Interest rate risk

The following table sets out the assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the Agency's interest rate risk position is limited by the fact that borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing date. Examples of this include mortgages, which are shown at contractual maturity but which could prepay earlier.

	Within 1 year \$	After 1 year but within 5 years \$	After 5 years \$	Not interest rate sensitive \$	Provision for possible losses \$	Total \$
<b>Assets</b>						
Cash	132,857	-	-	-	-	132,857
Accounts receivable	-	-	-	155,685	-	155,685
Due from Province of Prince Edward Island	-	-	-	3,400,000	-	3,400,000
Loans receivable	35,275,012	105,528,727	21,113,148	-	(20,673,228)	141,243,659
Property holdings and leased property	310	-	-	1,962,324	(1,593,890)	368,744
Investment in private company preferred shares	-	540,950	-	-	(540,950)	-
<b>Total assets</b>	<b>35,408,179</b>	<b>106,069,677</b>	<b>21,113,148</b>	<b>5,518,009</b>	<b>(22,808,068)</b>	<b>145,300,945</b>
<b>Liabilities and deficit</b>						
Accounts payable and accrued liabilities	-	-	-	481,841	31,316	513,157
Due to Province of Prince Edward Island	-	-	-	1,330,000	-	1,330,000
Notes payable	20,851,147	112,272,891	10,692,876	-	-	143,816,914
Deficit	-	-	-	(359,126)	-	(359,126)
<b>Total liabilities and deficit</b>	<b>20,851,147</b>	<b>112,272,891</b>	<b>10,692,876</b>	<b>1,452,715</b>	<b>31,316</b>	<b>145,300,945</b>
<b>Interest rate sensitivity gap</b>	<b>14,557,032</b>	<b>(6,203,214)</b>	<b>10,420,272</b>	<b>4,065,294</b>	<b>(22,839,384)</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>	<b>14,557,032</b>	<b>8,353,818</b>	<b>18,774,090</b>	<b>22,839,384</b>	<b>-</b>	<b>-</b>



## ***Clarification to Note 4 of Financial Statements***

### **Appendix E**

#### **Column 1 – Total**

Represents the total loan/leases divided by economic sector. These balances represent the balance owing at March 31, 2007 before any provision for loss. The "other" category is comprised of loans classified as non-current, wherein interest is no longer being accrued.

#### **Column 2 – Impaired**

Represents loans in arrears in excess of 120 days, or where in management's opinion, there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest. Management's assessment is based on the extent of the arrears, the value of collateral security, the cash flow of the borrower and management's judgement. The impaired loans are included in the total loan/leases in column (1).

#### **Column 3 – Allowance for possible losses – General**

A provision for loss based on management's judgement by sector whereby adverse economic trends suggest losses may occur, but where such losses cannot yet be determined on an item-by-item basis. Management takes into consideration past performance of similar loans, the level of specific provision and the existing economic climate.

#### **Column 4 – Allowance for possible losses – Specific**

Indicates the provision required to reduce particular assets from their book value to their estimated realizable value. Management takes into account the estimated future cash flow of the borrower and the estimated fair value of the collateral security held of the borrower.

#### **Column 5 – Net**

Indicates the total loan/lease (column 1), less the general and specific provisions for loss (columns 3 and 4).



***Application Statistics***  
***April 1, 2006 to March 31, 2007***

**Appendix F**

Sector	New	Total Received		Amount Approved		Declined/ Withdrawn/ Pending	
	No.	No.	Amount	No.	Amount	No.	Amount
Agriculture	10	28	5,692,200	25	4,757,000	3	935,200
Fisheries	66	101	16,224,900	87	13,336,900	14	2,888,000
Manufacturing and Processing	5	11	12,517,000	8	7,107,000	3	5,410,000
Aerospace	0	0	0	0	0	0	0
Information Technology	0	0	0	0	0	0	0
Small Business	3	9	2,728,000	8	2,558,000	1	170,000
Tourism	5	13	2,098,665	11	1,848,665	2	250,000
Total	89	162	39,260,765	139	29,607,565	23	9,653,200



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